

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: EFIN, VE
SUBJECT: BUDGET CUTS LINKED TO DECLINE IN OIL REVENUE

REF: CARACAS 1720

1. SUMMARY. MINISTRY OF FINANCE ANNOUNCES ECONOMY MEASURES
DESIGNED TO COMPENSATE FOR DECLINE IN OIL REVENUES. HE
DENIES THAT PETROLEOS DE VENEZUELA CASH RESERVES WILL BE
TAPPED OR THAT OIL TAX REFERENCE PRICE WILL BE ADJUSTED.
TO DATE THERE HAS BEEN LITTLE PUBLIC DISCUSSION OF BALANCE
OF PAYMENTS IMPACT OF OIL REVENUE DECLINE WHICH IS AT LEAST AS
IMPORTANT AS FISCAL IMPACT. SHOULD CURRENT OIL EXPORT LEVELS
LAST THROUGH MIDYEAR, VENEZUELA MAY EXPERIENCE \$1 BILLION
BLANCE OF TRADE DEFICIT IN 1978. END SUMMARY.

2. IN A STATEMENT TO THE PRESS FEBRUARY 22, FINANCE
MINISTER SILVA LUONGO ESTIMATED THAT THE GOV WOULD LOSE
BS. 3.5 BILLION IN BUDGETARY REVENUE THIS YEAR AS A RESULT
OF THE DECLINE IN SALES OF PETROLEUM ABOARD. HE ANNOUNCED
THAT ALL MINISTERS HAD BEEN ORDERED BY THE PRESIDENT TO
SEEK WAYS TO REDUCE EXPENDITURES. EFFECTIVE IMMEDIATELY,
ALL MINISTRIES WERE TO IMPLEMENT THE FOLLOWING:

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-- WORK ON INFRASTRUCTURE PROJECTS WHICH DID NOT ENJOY
A HIGH PRIORITY WAS TO BE STRETCHED OUT.

-- GOVE POSITIONS VACANT ON FEBRUARY 28 ARE NOT TO BE
FILLED FOR AN INDEFINITE PERIOD, NOR ARE ANY NEW
POSITIONS TO BE CREATED.

-- SCHEDULED INCREASES IN SALARIES FOR GOVERNMENT WORKERS ARE TO BE PUT OFF.

-- MINISTRIES SHOULD NOT APPROVE ANY BUT THE MOST ESSENTIAL PURCHASES OF SUPPLIES AND EQUIPMENT.

-- TRAVEL BY GOVERNMENT PERSONNEL IS TO BE DRASTICALLY REDUCED.

THE FINANCE MINISTER ESTIMATED THAT THESE MOVES WOULD SAVE BS2 BILLION.

3. SILVA LUONGO ALSO ANNOUNCED THAT THE GOV NOW ANTICIPATED REVENUE THIS YEAR FROM NON-PETROLEUM SOURCES WOULD TOTAL BS.1.8 BILLION MORE THAN HAD BEEN ESTIMATED IN THE ORIGINAL BUDGET ESTIMATES. TAKEN TOGETHER, HE SAID, THE ADDITIONAL REVENUE PLUS THE SAVINGS FROM THE ECONOMY MEASURES WOULD MORE THAN COMPENSATE FOR THE DECLINE IN OIL REVENUE.

4. THE MINISTER EMPHATICALLY DENIED THAT THE GOV HAD ANY PLANS TO INCREASE THE TAX TAKE FROM EACH BARREL OF OIL EXPORTED THROUGH AN ADJUSTMENT OF THE TAX REVENUE PRICE. HE ALSO DENIED THAT THE GOVERNMENT INTENDED TO DECLARE A CASH DIVIDEND ON PROFITS MADE BY PETROLEOS DE VENEZUELA DURING 1976 AND 1977. AS THE SOLE STOCKHOLDER IN LIMITED OFFICIAL USE

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PETROLEOS, THE GOV COULD USE ALL OF THE DIVIDENDS TO BALANCE THE BUDGET, BUT WOULD BE REDUCING THE RESOURCES AVAILABLE TO PETROLEOS FOR FUTURE INVESTMENT IN THE VITAL PETROLEUM INDUSTRY.

5. SILVA LUONGO INFORMED NEWSMEN THAT NO PRIORITY SPENDING PROGRAMS WOULD BE AFFECTED BY THE ECONOMY MEASURES. HE SAID THERE WOULD BE NO CUTS IN THE AREAS OF HEALTH AND EDUCATION, BUT DID NOT DISCUSS INVESTMENTS IN BASIC INDUSTRIES SUCH AS ALUMINUM AND STEEL. ONLY CUTS IN CURRENT EXPENDITURES HAVE BEEN AUTHORIZED TO DATE.

6. COMMENT. IN OUR DISCUSSIONS WITH CENTRAL BANK OFFICIALS, WE ARE TOLD THE GOV BELIEVES THAT THE DECLINE IN SALES OF PETROLEUM ABROAD IS A SHORT TERM PROBLEM, NOT LIKELY TO ENDURE MORE THAN SIX MONTHS OR SO. WE ESTIMATE (SEE REFTEL) THAT THE GOV IS LOSING BS.450 MILLION IN TAX AND OTHER REVENUE FOR EVERY MONTH THE LEVEL OF OIL EXPORTS STAYS AT THE CURRENT LEVEL. UNLESS OIL SALES RECOVER SIGNIFICANTLY BY MID-YEAR, ADDITIONAL MEASURES WILL BE NECESSARY. IF PETROLEUM SALES DECLINE FURTHER, THE GOV MAY HAVE TO MOVE EVEN MORE QUICKLY.

7. SO FAR, PUBLIC ATTENTION HAS BEEN FOCUSED ALMOST EXCLUSIVELY ON THE FISCAL IMPACT OF THE PETROLEUM PRODUCTION AND EXPORT PROBLEM. DECLINING REVENUES WILL HAVE A BALANCE OF PAYMENTS IMPACT AS WELL. AS THE DEPARTMENT IS AWARE, VENEZUELA WAS ALREADY EXPERIENCING BLANCE OF PAYMENTS DIFFICULTIES BECAUSE OF SURGING IMPORTS AND STATIC EXPORT EARNINGS (SEE CARACAS 437). WE ESTIMATE THAT VENEZUELA IS LOSING \$140 MILLION IN ANTICIPATED REVENUE FOR EACH MONTH PETROLEUM EXPORTS REAMIN AT CURRENT LEVELS (IN THE ABSENCE OF ANY PRICE INCREASE). SHOULD BE THE PROBLEM LAST ONLY SIX MONTHS, AND IN THE ABSENCE OF SIGNIFICANT CONTROLS ON IMPORTS, VENEZUELA'S PROJECTED BALANCE OF TRADE DEFICIT MAY RISE FROM \$300-\$400 MILLION TO OVER \$1 BILLION. THIS WOULD BE A SHOCK TO A COUNTRY WHICH HAS NOT EXPERIENCED A LIMITED OFFICIAL USE

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BALANCE OF TRADE DEFICIT IN DECADES.

8. ANOTHER SHORT TERM REMEDY WHICH HAS NOT BEEN DISCUSSED EXPANSIVELY IN THE PRESS SO FAR IS BORROWING. ACCORDING TO A PRESS ANNOUNCEMENT FEBRUARY 22, THE GOV HAS BEEN AUTHORIZED TO BORROW AS MUCH AS BS. 15 BILLION DURING 1978 (\$3.5 BILLION). LESS THAN HALF OF THIS IS EARMARKED FOR INVESTMENTS IN MAJOR PLAN V PROJECTS; THE REMAINDER IS AVAILABLE FOR REFINANCING OUTSTANDING DEBT AND FOR OTHER PURPOSES. THE REFINANCING AUTHORITY IS IMPORTANT; AS THE DEPARTMENT IS AWARE (76 CARACAS 11725) PRINCIPAL REPAYMENTS ON THE \$1 BILLION LOAN THE GOV NEGOTIATED IN 1976 BEGIN THIS OCTOBER AND VENEZUELA'S DEBT SERVICE BURDEN RISES SHARPLY IN THE THREE YEARS THEREAFTER, AS RINCIPAL REPAYMENTS BEGIN ON OTHER MAJOR LOANS CONTRACTED SUBSEQUENTLY.

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